Purchasing Power
and
The World Problem

PAMPHLET No. 2

SOCIAL CONTROL OF CREDIT

By WILLIAM IRVINE, M.P.

For additional copies apply Dominon Labor Party, Labor Temple, Calgary, Alberta.

PRICE ~~FIVE~~ 10 CENTS.

PURCHASING POWER AND THE WORLD PROBLEM.

The Social Control of Credit.

Summary of Pamphlet No. 1.

In pamphlet No. 1, the industrial problem of modern civilization was analyzed. Poverty, business depression, and unemployment, were shown to be due not to any lack of raw material procurable from natural resources, nor for want of machinery or plant equipment to convert raw materials into consumable commodities, nor through any shortage of willing, able and skilful workers; that the ability to produce sufficient goods for the requirements of mankind had been achieved; that the task confronting every country in the world to-day is the same, that of distributing the goods that the producing system is capable of putting out. Having brought the chief economic difficulty of mankind to the comparatively simple matter of finding out how to distribute the products of human genius and labor, as applied to natural resources, it was made clear that, while capitalism has greatly aided the perfecting of the machinery of production, it has failed to distribute; and that, while Communism and Socialism are challenging the Capitalistic system, and properly so, these new schools aim at only a change in the machinery of administration from an individualistic to a collective management of industry. But, while this change has much to commend it from the viewpoint of providing an opportunity for the masses to express themselves more fully, and of humanizing the industrial machine, it was seen not to touch the greatest need of all, which is distribution. And distribution was shown to be a matter purely and essentially of purchasing power, hence what is required was set forth as a new financial and economic policy, and not merely a change of administrators.

What Money Is.

Before forming any definite financial policy for the future, it will be necessary to see what money really is, and what it is supposed to do, as well as to point out that as it is now used in the hands of financiers, it not only defeats the real ends that it was devised to serve, but, by its misuse, brings untold miseries upon mankind. In dealing with the latter, it is not my intention to charge the bankers with any wilful design to defraud the public or to inflict hardship and suffering on the masses of the people, but I do charge them with ignorance of the power that is in their hands, and ignorance of the use of that power and of its effects upon the economic life of a nation. Their ignorance, however, was a universal possession until very recently, and is still carefully guarded by the majority of us.

It would be easier to occupy the entire space of this pamphlet in explaining what money is, than it is to explain it in a paragraph. But the latter is all that can be devoted to this part of my theme. Money is the name applied to a medium of exchanging goods, which medium was invented by our ancestors and adapted and developed by society to a point where it has become indispensable to civilization. Money has no value, or should have no value, except that for which it may be exchanged. The only way to demonstrate the value of money is to use it in exchange for goods or services. Money consists of no one thing, nor of any number of things. At different periods, and in various countries, money has been made of many different materials, such as gold, silver, copper, nickel, paper, porcelain, salt, shells, notched sticks, leather, etc. Anything agreed upon by general understanding or sanctioned by law to be used in exchanging goods is money. "Always and everywhere that which does the money-work is the money-thing."

We may conveniently say that we have two kinds of money in Canada. Cash, or money that has purchasing power because the law has conferred that

power upon it, such as gold or Dominion notes, both of which are legal tender, is one kind of money. Credit-instruments, such as bank notes, or personal cheques, neither of which are legal tender, but both of which have purchasing power merely because it is believed that legal tender could be secured for these documents if required, are the other kind. The fact that this cannot be done does not seem to hurt the belief. Of the first kind of money, and including with it all bank notes, we have only sufficient to do 4% of our annual business, the other 96% being done by cheques drawn on the basis of real credit, or, as it is commonly called, collateral. So much for what money is. It will be necessary in the future to attend to that kind of money by which 96% of all our business is done.

What Money Is For.

Money was not invented for the bankers, even though appearances would go to strengthen that foolish notion. Money was not invented that it might make more money, although this is the chief use to which it is put to-day. It was invented to aid people to exchange boots for wheat, clothes for coal, sugar for toothbrushes, tobacco for tea, etc. If, therefore, a man has tobacco or coal, while another has wheat or sugar, and each is in need of part of what the other has, they should never be prevented from trading for lack of money. If they are prevented, then money is being interfered with by some one.

In our highly developed civilization, money has become an absolute necessity of life. So much so, that, without it, a man can die of starvation at the door of an elevator of wheat that he has helped produce. Its great power is well stated by Delmar in his "History of Monetary Systems:" "When the principles which underlie it are thoroughly understood, money is perhaps the mightiest engine to which man can lend an intelligent guidance. Unheard, unfelt, unseen, it has the power so to distribute the burdens, gratifica-

tions and opportunities of life that each individual shall enjoy that share of them to which his merits or good fortune may entitle him; or, contrariwise, to dispense with them so partial a hand as to violate every principle of justice, and perpetuate a succession of social slaveries to the end of time."

I propose to show that money in Canada has been so handled as to violate every principle of justice, and so as to continue a succession of social slaveries as long as the people will tolerate them, or until such time as the system falls to pieces of its own inherent decay. In doing so, I shall first try to set forth more clearly what money is for. It has a primary and a secondary function. Its primary function has already been mentioned, but, for the sake of being explicit, as well as brief, I shall use a simple diagram which will not only indicate what money is for, but will show its relation in a general way to the modern industrial problem.

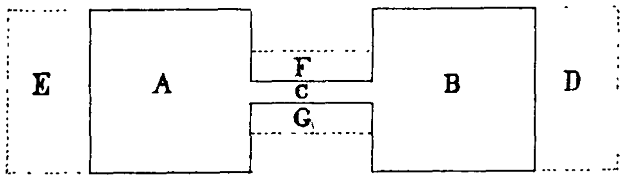


FIGURE 1

In figure 1, the square A represents the total production of Canada, that is to say every kind of goods and services, while square B represents the consuming capacity of the nation. It will be remembered that goods are produced for the purpose of consumption. In this way, the extent and nature of production in square A is conditioned by the effective consumption in square B. If the power to consume is extended and square B is widened, square A will immediately be enlarged to meet the demand of consumption. Now the small passage way marked C represents finance. Its purpose is to convey or distribute the goods from the producing system A to the consuming capacity in B. To perform its function properly, it should

always be large enough to convey, without any monetary restriction whatever, the goods across to the consumer. When the financial flow through channel C is limited in volume or in velocity, its true purpose is partly defeated, resulting in the waste of goods and the slowing down of production in square A, while people suffer and sometimes starve to death in square B for lack of the goods that are going to waste in the producing field. The passage C may be, and frequently is, contracted or enlarged either at the will of financiers or by the natural fluctuation of the system in vogue. When thus contracted it is called deflation and when enlarged it is called inflation. Dire results follow either action under the present system. When contraction or restriction of finance occurs beyond a certain point, it is impossible for consumers to obtain all the goods they require, while if it is enlarged the extraordinary demand for goods which inevitably follows raises prices far beyond the purses of wage earners, and this is only part of the evil of inflation and deflation. The point to be remembered from the above is that production and consumption are the factors that should determine the extent of the financial flow; the latter should never be allowed to condition the consumption or restrict thereby the power to produce. The cause of all our trouble in distribution is to be found in the fact that bankers, having control of the financial system, exploit it for the purpose of collecting interest, and only incidentally permit money to perform very inadequately its true function as the distributor of goods.

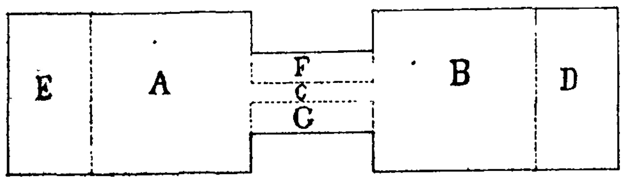
War and What Happened.

The first effect of a declaration of war is an excessive demand for goods. The Government itself becomes a consumer, and will not be restricted in its appetite for shells, guns of all kinds, warships, merchantships, rifles, uniforms and hundreds of other necessaries to the prosecution of war. Take another look at figure 1. The dotted line enclosing D indicates the increased

demand on the part of consumers caused by the declaration of war, and the dotted line enclosing E shows how the producing system responded to the sudden demand for war munitions. etc. But as soon as the rush of manufactured goods began to enter the financial channel en route for the consumer, the channel was found to be much too narrow to accommodate the phenomenal burden of goods, and the goods, so to speak, jammed up the channel and precipitated a financial crisis. This crisis was met in the natural way, the channel C was enlarged by the dotted lines enclosing F and G., so as to facilitate the distribution of the goods and war materials required by the nation. That is to say, the Government came to the rescue by issuing Treasury Notes on the strength of the National credit sufficient to float the extra goods through the distributing channel.

Now, although the Government permitted the financiers to make a "rake-off" of interest on the credit which belonged to the nation at large, still finance was, in this case, compelled to perform its true function and it did. Suppose, now, that the end of industry could be recognized as that of meeting the demand for consumption, should not finance be utilized to distribute to the utmost extent of consumption's requirements in normal times as well as in war times? Certainly it should, but the financiers will not allow this.

The first thing that the world financiers did when the armistice was being arranged, was to contract the financial channel to its pre-war size. Figure 2 will illustrate the relation of finance to consumption and production during the war:



Without enquiry as to the post-war demand, without knowledge of the volume of financial credit required to meet a "new normal" condition, the financiers arbitrarily narrowed the financial channel C, as indicated by the dotted lines enclosing F and G in fig. 2. The immediate effect on industry was that its wheels were clogged for lack of the means of distribution, or, in other words, for lack of purchasing power, so that the people could not get the goods they wanted, and the lack of effective demand thus brought about, speedily resulted in unemployment. The restriction of credit as above indicated had the effect of curtailing consumption to the extent shown by the space O enclosed by the dotted line. This reflected itself by reducing production by an equal amount.

Why the Bankers Did It.

The most generous answer to the question: "Why did the bankers restrict the financial medium as shown in figure 2?" is that they "knew not what they did." So, while we may forgive them, we ought to see to it that they do not get another chance to repeat their ignorance. They, of course, knew what they were doing, so far as they themselves were concerned. They were taking the steps that would insure their continued control of the country's credit, and at the same time make an enormous profit. It is doubtful whether the bankers knew that their action would lead to the paralyzing of industry, the bankruptcy of thousands of business men, the unemployment of multitudes, and the actual starvation of many. The bankers were steering straight for the goal of interest, and did not notice the little crafts they ran down in their course.

In addition to the effect which this deflation policy had on industry, it had another remarkable effect on the National Debt. The bankers saw that by contracting financial credit, they could double their profits. This, of course, meant doubling the National Debt. But a little thing like that did not worry the

financiers, but it does worry the tax-payer, only the tax-payer does not know what "it" is that really causes his worry.

How the National Debt was Doubled.

When inflation took place, as shown by the dotted lines in figure 1, Canada really did exactly what Germany was forced to do, namely, create new money on the strength of the National credit. Of course, it was not necessary for Canada to go the same lengths as Germany did, but the effect was precisely the same, so far as we did go. By increasing our financial credit sufficiently to carry our war business, the value of the dollar was reduced to about 45c, this being so a very large proportion of war bonds was bought by financiers with dollars valued at 45c. By going back to the old basis, or 'gold basis,' as it is called and which is shown by the dotted lines in Figure 2, it means that the Canadian people must redeem those bonds that were bought with 45c dollars, with dollars that are valued at 100 cents. Or, in other words, our war debt was more than doubled. This is a trick in finance which ought to be understood. Let me illustrate further how it was done.

Let us suppose that, instead of the Government borrowing the money to buy the goods necessary to carry on the war, it borrowed the goods direct from the producer. Suppose, to be specific, that, instead of borrowing money through the selling of bonds to buy the wheat necessary to feed our soldiers, the Government borrowed the wheat direct from the farmer. But, before doing so, let us suppose that the Government ruled that each bushel of wheat so borrowed was to contain 30 pounds of wheat instead of 60 pounds, as is approximately the usual weight. Very well, then, we shall say, merely for illustrative purposes that the Government borrowed five thousand bushels of wheat from the farmers at 30 pounds to the bushel. This wheat was to be paid back bushel for bushel after the war. But, when the war ended,

let us suppose the Government again decreed that wheat thereafter should weigh 60 pounds to the bushel as usual, and forthwith paid back the farmers the five thousand bushels borrowed. It will be clear that, in this case, the farmers would have received exactly twice as much wheat from the Government as they lent. True, they get back the same number of bushels, namely five thousand, but inasmuch as the weight per bushel has been doubled, the farmers obtain twice the amount of wheat. This is exactly what the financiers did. They halved the value of the dollar by inflation. They next bought the national bonds, and then deflated the dollar back to its original value, so that, when the bonds are paid up, they will cost twice as much in dollar values as when they were floated, although the same number of dollars will be involved. Add to this the interest charges which, at 5%, will double the principal every twenty years, and add to that the fact that these bonds are untaxable investments, and some idea of what the financiers did to Canada will be obtained.

The same is true of all debts contracted during the period of inflation. Every soldier settler, and every farmer that contracted debts during the war period, stands to pay back the value of two bushels of wheat plus interest for every bushel borrowed.

Dollar For Dollar.

It must be remembered that in time of war, the restriction of money by bankers was not allowed to hold up the Government consumption of goods. War had to be fed, hence money was created to distribute goods sufficient to gorge the bloody monster of destruction. The lesson from this, to be applied to peace conditions, is that, while the people generally can consume a great deal more goods in normal times, the finances are usually so restricted as to prohibit this. They do not exercise their power to create sufficient money through their Governments

to guarantee the adequate distribution of goods during peace times, as they do in war.

There can be little doubt that a consumption of peace goods equal to that of war consumption could have been maintained after the war, had not the deflation policy of financiers cut off the supply of purchasing power. But that having been done, the people simply had to deny themselves many things, and reduce their standard of living to the basis of available purchasing power. A bargain day reveals this fact in a most obvious manner. A real bargain day in one of the large stores is equal to an increase in purchasing power to the people, their purchasing power being increased by the amount of price reduction. For this reason, there is always a rush and a crush for the bargain-counter. There is a tremendous capacity for consumption going unsatisfied at the present time. The producing power is equal to the possible power to consume. The lacking factor is finance, and finance, properly speaking, may be and is created at will on the strength of the nation's credit, which means the nation's power to produce and deliver goods. This being so, there is no excuse for the present impasse in the industrial world, except that offered by bankers for the purposes of safeguarding their privileges.

Seeing that the war debt was actually doubled by deflation of credit, it could be halved by a corresponding inflation. If any regard whatever were paid to what might be termed the theoretic ethics of the present system, inflation would be instituted at once to the extent that it was in practice when the war bonds were issued, and continued until all debts contracted during the war period were paid. This would not only mean the stimulation of industrial life, but it would mean that war debts would be paid with dollars having the same value as obtained when the debt was contracted. Surely our financiers, who prate about their morality, would not object to that. We must know, however, that while inflation is the

antidote to deflation as strychnine is to morphine, both are dangerous drugs and neither should be used in a healthy society.

A Secondary Function.

The above should make clear the relation and the importance of finance to industry, its relation to the making of wealth easily by the few, and the impoverishment of the many, who must pay the double charges caused by inflation and deflation, and who also must pay the interest while at the same time reducing their wants to meet available purchasing power. The foregoing should also make clear the primary function of money, and the importance of its being socially controlled. But there is a secondary function of money which has been exploited to as great a degree, and with as dire effects as has the primary function.

The secondary function of money is that it makes it possible for the individual to save from the toll of his youth, so as to insure a living in old age. In this respect, as in its primary function, money is merely a system of book-keeping. This is how it works. John Smith is a horticulturist. He wants to save enough vegetables, above that which he uses or exchanges for his living, to keep him in old age. But he cannot save the vegetables themselves. The potatoes, carrots, cabbage and lettuce are all too perishable for hoarding. The only way that John can save them is to get other people to eat them, and to obtain money or "tickets" that will entitle him to secure, at any time he desires to use these "tickets" or dollars, the same values in goods as he gave in vegetables. In this way he saves his surplus earnings by means of this "ticket" or money system.

Now it will appear that this "ticket" system is a great convenience for John. It enables him to save his earnings, and to retire in old age. He has saved his vegetables by getting other people to eat them, he keeps account of his vegetables by means of the

"money" or ticket system and thus is greatly benefited.

But John is not satisfied with this. He begins to exploit the tickets, by lending them and charging interest, so that in this way he doubles his number of tickets every fifteen or twenty years, according to the rate of interest. Of course, the average reader will say—"Certainly, why should John not lend his money?" That is the question I want to answer. It is not John's "money." He does not own the money system; all that he can properly claim for the money he holds, is its value in goods exactly the same as he gave to obtain the money. The money system itself must be separated from the values which money commands. The system is a convenience belonging to society and John may have the convenience, but he must not claim the right to exploit the system, for, in doing so, he deprives others of the convenience and compels them to pay him toll.

Therefore, it would be more in keeping if John paid a small percentage to society—say, enough to do the book-keeping—in return for the service money has rendered him in making it possible for him to save his vegetables that he otherwise would have lost, than for John to charge some one else interest for the use of that which really did not belong to him. Interest charges are legal, they are sanctioned both by church and state, but they are damnably immoral. For this reason, as well as for the reason that interest-bearing debts have grown to such an extent that it is impossible to pay them, interest must be abolished or collected socially for social purposes.

The Supreme Privilege.

The monopoly by financiers of the Credit of the Country is the supreme privilege of the ages. I mentioned at an early stage of this pamphlet that 96% of all business done in Canada, is done by writing cheques. But what do men write cheques on? The banks permit persons to write cheques on the

strength of the power which the banks believe these persons have of producing goods equivalent to the amount for which the cheque is drawn. No person need go to the bank to ask the privilege of writing a cheque, unless such person already has goods or the prospects of having goods much in excess of the amount that he desires to borrow.

You say—"Why, of course! That is surely sound. No one should be allowed to borrow, unless he can give some assurance that what he borrows will be paid back." Agreed. But why should a man with a hundred head of steers in his pasture have to go, cap in hand, to a banker for the privilege of using the financial expression of his own steers, and besides be possibly refused, but if not refused must forfeit several steers in the form of interest to the banker? The answer is that the Canadian Government has given to the bankers full control of National Credit, so that no man can use his individual credit unless the banker permits it, and exacts a toll for the permission. Even our National borrowings are first given to the financiers in the form of National Credit, and then borrowed back from them again at a high rate of interest. The people, of course, keep on paying the interest in the form of taxes.

Summary of Sanctified Fraud.

Mr. Thoresby, writing on the money question, has succinctly dealt with the whole sanctified fraud system. I cannot do better than quote him at this stage. He says:—

"Our Treasury, as a Government Department, at one and the same time issues, free of interest, nearly £300,000,000 worth of Treasury Notes, which the whole world gladly accepts as value; with only the nation's Credit Power behind them to give them value; and in the same breath borrows in the form of Treasury Bills £1,000,000,000 of British Credit Power from the banks and pays such banks from 4 per cent to 5 per cent, in the form of discount, for letting us

have what would have no value if we did not create wealth, so giving value to capital from day to day.

Even yet the ridiculousness of our national financial thinking and practice is not exhausted. For our Treasury, whilst with one hand issuing free and buying dearly British Credit, is also at the same moment with the same British Credit Power, guaranteeing banks all over the world against loss of interest and capital in respect of loans to different nations and individuals.

The gem, however, of all our national financial stupidities is that in 1694, during the reign of William and Mary, we borrowed from the Bank of England £1,200,000 at 8 per cent (subsequently reduced,) and in due course, by the operation of compound interest, the amount rose to £14,686,000. Then, over a series of years, one-fourth of this amount was repaid so that by 1860 Great Britain owed the Bank of England £11,015,000.

And to-day, sixty-four years afterwards, we still owe the Bank of England £11,015,000, and every year we pay interest upon this amount. And yet through this same bank we distribute nearly £300,000,000 of currency in the form of Treasury Notes free of interest.

"And yet the whole of our apparent slavery to Capitalism and the handing over of our National well-being into the hands of International financiers whose interests are wholly selfish and necessarily foreign to those of Great Britain, could be brought to an end, as if by magic, if the Treasury, in the name of the British Government, were to offer anyone, as against adequate security, chunks of the nation's credit power free of interest except necessary charges, or at from 1 to 2 per cent interest.

This credit power could be issued as it is now in the form of either Treasury Notes or Treasury Bills through the Bank of England and all the other banks."

A Suggestion.

To break the power of the controllers of credit, and to secure the use of credit without interest, is the greatest and most important of all the economic problems of our time. When bankers control credit, they control the policy of industry, and do so without any knowledge of the function either of industry, money, or economics. The result is the economic disaster of our generation.

The power of the financier will not be broken easily. The strongest bond of slavery is popular ignorance and unconcern regarding the subject of credit and credit-control. Judging from the lack of interest shown on the part of the general public it will be some considerable time before the people rise to take charge of their own credit. The general break-down of the whole financial system, national and international, owing to the piling up of debts is a more likely occurrence in the near future than the intelligent awakening of the people. However, seeing that debts have grown so large, that it is not only impossible ever to pay them, but the burden of interest charged in connection with these debts is so crushing that neither individuals nor communities can stand beneath it, surely it is not too much to hope that some constructive thing might be done at once.

Let me make a suggestion as to what might be done in connection with Provincial debts. The bonded indebtedness of a province I shall say by way of illustration is 60 millions. Back of the bonds for that 60 millions is the credit of the province, and on that amount of debt, on a 5% interest charge, the people would have to pay 3 millions annually in taxes. In twenty years they would pay 60 millions in interest and still owe the bond holders 60 millions. This annual drain of 3 millions for interest must be raised by taxes and thus there would be 3 millions less to spend on roads, education, health, and other public needs.

I propose that that Provincial Government approach the Dominion treasury, deposit there the credit of the

province which the bond holders accepted as collateral for the 60 millions. Then request the Dominion treasury to issue Dominion notes to the extent of the Provincial debt, without interest. These issues would be made periodically as the Provincial bonds came due.

Under this arrangement, the 3 million dollars, collected in taxes for interest to the bond-holders, would be applied to the reducing of the original debt, so that in 20 years' time the province would have paid off the entire 60 millions. If the present system is continued, such a province may owe twice 60 millions in another 20 years. The money thus paid back to the Dominion treasury could be destroyed as it was paid in by the province. In this way there would be no more money in circulation at the end of the transaction than there was at the beginning.

What is the matter with this proposal ? The only difference between this proposal and what is now the practice is that instead of paying bond-holders 5% for the privilege of using their own credit, the people would use their credit through the Dominion treasury without interest. Let the bankers, or the Minister of Finance, or the Prime Minister, say why this should not be done.

Progress comes by pushing. Keep pushing. I feel sure that if any Provincial government did as I have suggested, the Dominion government would ignore it. Even so, let the Dominion government accept the responsibility for so doing. In the meantime let the people push the Provincial government, the Provincial government push the Dominion government, and eventually victory will come.

MUTUAL PRESS LTD , OTTAWA, ONT